

MONTEREY BAY AIR RESOURCES DISTRICT (MBARD)

DIESEL ENGINE AND EQUIPMENT REPLACEMENT PROGRAM (DEERP)

Policies and Procedures Manual

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24580 Silver Cloud Court
Monterey, CA 93940
(831) 647-9411

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Executive Summary

To improve air quality and promote economic benefits, the Monterey Bay Air Resources District (District) applies for and expends funds from the California Air Resources Board's (ARB) Carl Moyer Program (CMP), Funding Agricultural Replacement Measures for Emission Reductions (FARMER) Program, Community Air Protection Program (CAPP), and other state and local mitigation funds.

2020 Update. In order to expand funding to more projects and to further reduce emissions in the North Central Coast Air Basin, MBARD has changed the project prioritization for the upcoming 2021 Diesel Engine and Equipment Replacement Program (DEERP) funding cycle.

During the upcoming evaluation cycle for CMP and FARMER Eligible Projects the ranking priority will be given to projects that are zero-emissions and are most cost-effective (less \$/ton of emissions reduced). Grant funding amounts will be capped at 50% or \$150,000 (whichever is less).

The Community Air Protection Program (CAPP) will focus on electrifying Class 6 through Class 8 fleets in and around Disadvantaged Communities (DACs), Low-Income (LI) areas, and those areas identified to be within the ½-mile buffer zone between DACs and LIs.

I. Background

ARB’s CMP Guidelines require the District to adopt a Policies and Procedures Manual in order to receive CMP funds. Staff has prepared this Diesel Engine and Equipment Replacement (DEERP) Program Policies and Procedures Manual as a supplement to ARB’s CMP Guidelines, which remain in effect for the District’s CMP. This manual sets forth policies and procedures for District staff use in day-to-day administration of the CMP, FARMER, and CAP Programs.

These policies and procedures outline the District’s methods to meet or exceed minimum requirements for the CMP as specified in the CA Health and Safety Code (H&SC), Chapter 9, and as elaborated by ARB in the 2017 CMP Guidelines (Updated June 20, 2017) and ARB CMP advisories published to date pertaining to the CMP Guidelines. District staff will use this manual to implement the District CMP.

II. Program Timeline

The DEERP Guidelines set a timeline for the program. Table 1 presents the details of the DEERP Program. The District is required to meet the CMP obligation and expenditures deadlines for each funding year. The schedule for District grant offers and contract executions are based on these deadlines.

Table 1. MBARD DEERP Implementation Timeline

MONTH	DESCRIPTION
January	<i>District accepts DEERP applications (mid-January to mid-March)</i>
February	
March	
April	<i>ARB awards CMP, FARMER and CAPP funds to District</i>
May	
June	<i>Deadline to expend funds associated with the funding year four calendar years prior (including interest, recaptured funds, and other funds added to the funding target for that year). Deadline to obligate funds</i>
July	<i>District publishes project ranking list and starts making contract offers</i>
August	<i>Submit annual report to ARB</i>
September	<i>District must submit, and ARB must receive a check for the shortfall amount by Sept. 28</i>
October	
November	<i>Board authorizes future DEERP year solicitation</i>
December	

III. ARB Grant Funds (FARMER, Moyer and CAPP)

ARB allocates FARMER, Moyer, and CAPP Grant funds to the District each year in accordance with a formula identified in H&SC 44299.2(a). ARB notifies the District of this amount and the match funding required (see below for details regarding the match funding). Each year the District submits to ARB a completed application form with original signature, documentation of the match commitment and District Board resolution for obligating the grant award. The resolution also authorizes the Air Pollution Control Officer (APCO) to implement the DEERP, if funding is awarded by ARB.

A. Grant Award and Authorization

ARB determines awards for each air district and specifies the amount of the award for projects and outreach funding. Following execution of the Grant Award and Authorization Form, the District typically has 12 months to obligate and 24 months to expend all funds awarded. For current policy concerning return and reallocation of unexpended funds, see the 2017 CMP Guidelines, Chapter 3, P. *Return and Reallocation of Funds, (2) (3) (page 3-20)*. District must submit and ARB must receive a check for the shortfall amount by September 28.

B. ARB Grant Disbursement Request

Upon execution of the Grant Award and Authorization Form, the District submits an initial Disbursement Request to ARB. The initial disbursement can include up to 10% of the District’s allocation or \$200,000, whichever is greater, and all of the administrative funds. The District submits subsequent disbursement requests after obligation of funds to projects.

C. Other Funds using CMP Guidelines

Over the past few years, the District has received funds from CARB for several programs, which require the distribution of these funds according to the CMP Guidelines. To allow for efficient evaluation of projects and disbursement of funds, once evaluated and ranked, projects are funded using eligible funding sources in order of priority and annual emissions reduced. The leveraging of various funding sources expands the opportunities for current applicants. If necessary, the District will host additional application cycles to help liquidate funding and/or meet the requirements of the specific funding source. Below are all additional funding sources explained.

1. CMP State Reserve Funds

H&SC § 44286(d) gives CARB the authority to reserve up to 10 percent of CMP funding to directly fund any project that is a covered source and is described in Section 44281. In Fiscal Year (FY) 17-18 and FY 18-19, the state reserve funds have been allocated towards CMP eligible off-road projects. Mobile, portable, and stationary off-road compression ignition and large spark-ignition projects such as construction, agricultural, and industrial equipment are eligible for funding.

Table 2: CMP State Reserve Disbursement, Liquidation, Return of Funds Timeline

FISCAL YEAR	DISBURSEMENT DEADLINE	LIQUIDATION DEADLINE	RETURN OF FUNDS DEADLINE
2017 – 2018 (Yr 20)	June 30, 2020	June 30,2022	September 28, 2022
2018 – 2019 (Yr 21)	June 30, 2021	June 30,2023	September 28, 2023

2. FARMER Program

The Funding Agricultural Replacement Measures for Emission Reductions (FARMER) Program provides the District with funds for reducing agricultural sector criteria pollutants, toxic air contaminants, and greenhouse gas (GHG) emissions. Eligible projects include agricultural harvesting equipment, heavy-duty agricultural trucks, agricultural pump engines, tractors, and other equipment used in agricultural operations.

Funding awarded to the District was based on the District’s portion of emissions from farm equipment in the publicly available inventory and attainment status with National Ambient Air Quality Standards. For Fiscal Year 2019-20, projects are chosen and implemented using the 2018 FARMER Guidelines, the 2017 CMP Guidelines, the 2018 Funding Guidelines for Agencies Administering California Climate Investments, and specific contract requirements.

The District will ensure priority for funding projects that are within and benefitting disadvantaged communities and low-income households or communities consistent with AB 1550. Priority will also be given to zero-emission pilot or replacement projects.

ARB requires the District to submit quarterly reports for FY 18-19 funds, and semi-annual reports for the subsequent FY 19-20 funding cycle. Any projects which have a project life that extends past the funding liquidation date must submit annual reports to the ARB for the duration of the project life.

Table 3: FARMER Disbursement, Liquidation, Return of Funds Timeline

FISCAL YEAR	DISBURSEMENT DEADLINE	LIQUIDATION DEADLINE	RETURN OF FUNDS DEADLINE
2017 - 2018	May 30, 2021	June 30,2021	August 15, 2021
2018 - 2019	May 30, 2022	June 30,2022	August 15, 2022
2019 - 2020	May 30, 2023	June 30, 2023	August 15, 2023

4. AB 617 Community Air Protection (CAP) Funds

The ARB is providing California Climate Investment funds to support early actions that reduce emissions and improve public health in communities with high burdens of cumulative pollutant exposure, consistent with the goals of AB 617.

Funding will prioritize electrifying medium and heavy duty vehicles(Class 6 – Class 8), including zero-emission school buses, charging/fueling infrastructure, and replacement projects of vehicles, equipment, and infrastructure that operate in AB 617 communities. The District will strive to grant no less than 70 percent of funds to projects that are located in, and provide direct, meaningful and assured benefits to SB 535 disadvantaged communities, and strive to grant no less than 80 percent of funds to projects that are

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located in, and provide direct, meaningful and assured benefits to residents of AB 1550 communities.

Eligible projects include those eligible under the CMP 2017 Guidelines, CAP Funds Guidelines Supplement, 2019 CAP Guidelines, or other incentive projects and programs included in approved Community Emissions Reduction Program (H&SC§ 44391.2).

The District will provide a summary of final selected projects consistent with Section IV of the CARB Funding Guidelines for Agencies that Administer California Climate Investments (CCI Funding Guidelines) online.

When submitting project lists with disbursement requests the District will indicate how each project satisfies evaluation criteria for benefits to priority populations. The Funding Guidelines criteria for Clean Transportation and Equipment will be used unless modified by mutual agreement.

Table 4: CAPP Disbursement, Liquidation, Return of Funds Timeline

FISCAL YEAR	DISBURSEMENT DEADLINE	LIQUIDATION DEADLINE	RETURN OF FUNDS DEADLINE
2017 – 2018 (CAP-1)	June 30, 2019	June 30, 2021	September 28, 2021
2018 – 2019 (CAP-2)	June 30, 2020	June 30, 2022	September 28, 2022
2019 – 2020 (CAP-3)	June 30, 2021	June 30, 2023	September 28, 2023

IV. Match Funding

Air districts participating in the CMP that request more than the minimum allocation of \$200,000 are required to provide match funding (H&SC §44287). The District must commit match funds equaling 15 percent of the CMP funds received. The source of local match funds can include AB 2766, AB 923, local mitigation fees, or Monterey Bay Community Power (MBCP). Historically, the District has used AB 923 funds to meet match requirements.

V. Earned Interest

District accounting staff deposits CMP funds received from ARB into an interest bearing account. The funds are separately accounted from any other funding sources. The District allocates earned interest to CMP projects according to the 2017 CMP Guidelines. Accounting staff tracks the accrued interest and provides this upon request by planning staff. Planning staff use this information to allocate interest funds to eligible projects and for reports to ARB.

VI. Co-funding ARB Grant Fund Projects with Other Funding Sources

Funds other than ARB Grant Funds may be used to co-fund eligible projects, when all program criteria associated with each funding source are met. Funding sources are grouped into the following categories:

- Federal funds
- State funds
- Local funds

- Penalty funds
- Other applied funds

VII. Administration and Outreach Funds

The District is allocated up to 12.5 percent of the total annual grant funding for administration and outreach costs to implement the program. Administration and outreach funds may be used for costs associated with the tasks such as staff time, consultant fees, printing, mailing, and travel costs. District accounting staff maintains the following documentation of costs required by and in accordance with the 2017 CMP Guidelines:

- Personnel documentation
- Consultant fees
- Printing and mailing expenses
- Travel expenses

If District staff incurs travel expenses related to the CMP, those expenses are charged to the CMP based on travel costs, per diem rates and policies described in the MBARD Administrative Code. District accounting staff maintains the indirect cost calculation methods.

The District uses outreach funds to inform the public about the grant fund availability, when the District accepts applications and to keep off-road equipment dealers informed of CMP Guideline requirements.

VIII. Project Solicitation, Evaluation and Selection

The CMP allows air districts to determine the method of soliciting projects and the types of projects to fund. Currently, the District may consider the following project types for funding:

- Marine vessel engine repower or alternative fuel repower
- Off-road equipment replacement and/or electrification
- Agricultural irrigation pump electrification
- Zero-emission school bus replacement
- Zero-emission Infrastructure
- Zero-emission On-Road Vehicle replacement

Zero-emission School Bus Replacement

School buses are subject to the Statewide Truck and Bus Regulation. The maximum funding cap for zero-emission school bus replacements is \$400,000. On a case-by-case basis, the District will consider increased funding.

Zero-emission Infrastructure

All infrastructure projects must be used to fuel or power a covered source as defined by H&SC § 44275(a)(7). These covered sources include but are not limited to on-road, off-road, agricultural and marine vessel emission sources. Statute does not require infrastructure projects to meet a CE threshold. To provide project selection transparency for publicly accessible infrastructure projects, the District will go through a competitive bid process when the project includes public access.

Zero-emission On-Road Vehicle Replacement

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Many fleet rules affect On-Road Heavy-Duty Vehicles. Various types of projects can be incentivized to provide surplus emission reductions from on-road heavy-duty vehicles. For fleets with ten or fewer vehicles over 14,000 lbs. GVWR, the State funding amount cannot exceed 80 percent of the vehicle cost (excluding taxes and fees). For fleets with more than ten vehicles, the funding amount cannot exceed 50 percent of the vehicle cost (excluding taxes and fees).

The following sections describe the District's method for soliciting, evaluating, and selecting projects.

A. Project Solicitation

The District conducts outreach to each sector listed above, especially small business contacts and dealers/vendors of new equipment and/or engines. Examples of District outreach include:

- Heavy-duty diesel engine and parts suppliers and service providers
- Press releases
- Public workshops
- Posting on District website

B. Application Evaluation and Project Selection

Each complete grant application received is assigned a unique number and filed for eligibility review. Grant funds will be limited to two active contracts per applicant (individual or corporation). However, the District will consider entering into additional contracts with a grantee on a case-by-case basis.

If the number of complete, eligible applications is insufficient to obligate all ARB Grant Funds, the District may use the following procedures to obligate remaining funds:

- Work with inactive applicants to complete and evaluate their applications
- Reopen the solicitation
- Use remaining ARB Grant Funds for other eligible program(s)
- Carry over unobligated funds to the next year and increase advertising and outreach

After the submission deadline, the District evaluates all applications for eligibility. The following sections describe the District's application evaluation and project selection process.

1. Application Evaluation

All applicants must be in good standing with all Air District requirements and must comply with state or federal regulations (i.e. Commercial Harbor Regulations, Truck and Bus Regulation, Portable Equipment Registration Program). For Infrastructure projects, the project must comply with all applicable federal, State, local laws and codes. The District evaluates applications for completeness. Incomplete applications will be returned with an explanation of the missing information within thirty working days of receipt. Applicants are able to resubmit their completed applications prior to the application deadline.

The District may deny applications where applicants have been convicted of violating any federal, state or local law or regulation relating to fraud or financial mismanagement, and

may hold applications pending any investigation into such matters. The District may also deny applications if the applicant has violated any District Rule or Regulation, or has breached or participated in the circumvention of any material provision of a contract with the District.

As part of the evaluation and selection process, the following elements are considered:

a) Baseline Engine Information

A major aspect of the application evaluation is confirming baseline engine data, reviewing historical use and calculating annual average use. Staff confirms baseline engine specifications with the engine manufacturer's data.

As part of the application evaluation process, staff documents that the baseline engine is operational, based on one or more of the following:

- Maintenance records showing dates and hour meter/odometer readings
- Receipt showing purchase/installation date of current hour meter
- Fuel receipts showing dates of purchase and quantity
- Other means to verify actual use of the equipment/engine during at least the 24 most-recent months

The District may evaluate other forms of documentation based on approval by ARB on a case-by-case basis. The District maintains baseline engine documentation in the project folder.

District staff calculates the average annual use for the baseline engine from records submitted with the application. CMP projects must be based within the District's jurisdiction. The emissions reductions and grant amount are calculated from use within California and within California waters (for marine vessels) in accordance with the 2017 CMP Guidelines. If the applicant does not provide documentation of annual use, the application will be returned.

Annual use will be based on hour meter readings. In the event that this information is unavailable, District will accept the submission of fuel receipts to determine annual use on a case-by-case basis.

b) Eligible Costs

The District reviews the price quotes included with the application and will allow costs for taxes, installation and transportation costs for eligible equipment.

c) Environmental Justice

The District has fewer than one million inhabitants so the District does not track funding allocated to environmental justice areas as indicated by H&SC § 43023.5.

2. Project Selection and Funding Amount

Staff evaluates each eligible project to determine the Cost-Effectiveness (CE), Weighted Annual Emissions Reduced, and Grant Amount. The Cost-Effectiveness (CE) is used to rank the projects, while also giving priority to electrification projects. Projects will be ranked from

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most cost-effective (lowest \$/ton of emissions) to least cost-effective (highest \$/ton of emissions). For On-Road projects using CAPP funds, priority is given to projects in disadvantaged, low-income, and buffer zone areas.

The grant amount for Moyer and FARMER projects is calculated by using the lowest project life, which keeps the project at or below the CE limit of \$30,000 (see Table 5 for minimum and maximum caps per project type). If the calculated project CE is higher than the \$30,000 cap, the District will use the maximum project life as stated in Table 5.

School bus projects have a unique maximum grant amount of \$400,000 and also a unique CE limit of \$276,230 / ton.

Table 5: Project Life Selection Criteria (in Years)

PROJECT TYPE	MINIMUM	MAXIMUM
On-Road		
Replacements	1	7
School Bus Replacements	1	10
Electric Conversions	1	5
Other On-Road Projects	1	3
Off-Road		
Repower only	3	7
Farm Equipment (All Projects)	3	10
Replacement & Repower to Zero-Emission	3	10
All other non-farm replacements	3	5
Infrastructure	3	15

Project funding will be limited to 50% or \$150,000 (whichever is less) for diesel-to-diesel repower and replacement projects. All zero-emission replacement projects will follow the funding caps according to the 2017 CMP Guidelines as shown in Table 6.

Table 6: Maximum Percentage of Eligible Costs

PROJECT TYPE	FUNDING CAP PERCENTAGE
On-Road (Zero Emission Replacements or Conversions)	
Fleets with 10 or less vehicles	80%
Fleets with 11 or more vehicles	50%
Off-Road	
Repower to zero-emission	85%
Diesel to diesel	65%
Infrastructure	
All Projects	50%
Publicly Accessible Projects	60%
Projects with Solar/Wind Power Systems ^(a)	65%
Publicly Accessible Projects with Solar/Wind Power Systems ^(a)	75%
Public School Buses – Battery Charging and Alt. Fueling	100%

^(a) At least 50 percent of the energy provided to covered sources by the project must be generated from solar or wind.

Staff enters project information into ARB’s Clean Air Reporting Log (CARL) to confirm emissions reductions and the funding amount for the top ranked projects that are equivalent to the District’s available grant funds.

The District files the following information in the project folder:

- Project application
- Record of each project’s emission reductions and ranking

IX. Project Pre-Inspection

District staff conduct a project pre-inspection after an applicant accepts the grant amount, but before contract execution. The pre-inspection verifies that the baseline engine is operational, meaning the engine must be in condition to perform its intended purpose. Staff will also verify the baseline engine serial number, horsepower, and model year. Lack of a legible serial number may make the project ineligible for funding.

For off-road equipment, pre- and post-inspections can be completed on the same day through the observation and documentation of the baseline equipment, replacement equipment, and the destruction of the baseline equipment.

An inspection will only be scheduled for a time when the project applicant can provide a safe environment for staff to conduct the inspection. For example, engines shall only run during the inspection to verify operability. The applicant must also ensure that engines have not been operated within several hours prior to the inspection to avoid excessive engine temperature.

At the time of the inspection, the applicant must be able to direct Air District staff to the exact locations of equipment identification plates, hour meters and fuel gauges. All required paperwork must be available during the inspection. The pre-inspection form includes information such as make, model, year, horsepower, fuel type, engine family, engine tier, serial number, application number, and date. As part of the inspection, District staff will photograph the baseline engine. Inspection forms, including photos, are stored electronically in the project folder. If the engine identification is illegible, the pre-inspection form will be used to document baseline engine information to uniquely identify the engine.

The District has the following additional policies regarding pre-inspections:

- The District may allow public agencies to provide documentation of the baseline engine(s) subject to District verification.
- For equipment and/or engines located outside of District boundaries, District staff may request staff of the air district in which the equipment is temporarily located, to conduct the pre-inspection. Likewise, District staff may conduct pre-inspections within the District's boundaries for other air districts at their request.

X. Obligation of Funds to Projects

Upon confirmation of project eligibility, District staff sends the applicant a written offer and contract for signature by the applicant within 30 days (electronically unless otherwise requested by the grantee).

If the grantee fails to sign the contract within the 30-day period, staff contacts the applicant to determine whether an extension should be granted. An extension of the signature date may be granted if this would not extend the project completion date past the District's expenditure deadline for CMP funds. If no extension is granted, the grant offer will be rescinded, the application will be made inactive, and the funds will be reprogrammed to the next-highest ranked project.

XI. Contract Development

ARB requires that all CMP contracts contain the elements listed in the 2017 CMP Guidelines, Chapter 3, *V. Minimum Contract Requirements (page 3-27)*. These elements include party names, date, contact

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information, contract term, project specifications, payment provisions, reporting requirements, and repercussions for noncompliance. The District reviews the format and content of CMP contracts internally prior to sending to applicants. This review begins with District counsel approving the contract template prior to planning staff preparing project-specific contracts. Planning staff prepares project-specific contracts that are reviewed by the Planning Manager prior to submitting to the grantee.

In addition to the CMP contract requirements, District contracts contain the following additional provisions:

- A. Warranty requirements
- B. Property and liability insurance for all projects.
- C. Grantee specifies whether payment should be made either by: (a) 1-party check to Grantee or (b) 1-party check to vendor identified in the contract.
- D. No grant funds shall be given to any member of the District's Board of Directors. This requirement is also extended to members of the District's Advisory Committee, Hearing Board, any other District committee, and staff of the District.
- E. The District will file a UCC-1 (lien) on all grant-funded projects prior to payment of invoice or reimbursement and the District will file a UCC-3 (lien release) within 10-days of contract expiration.
- F. Grantee shall provide notice of UCC-1 filing to prospective purchasers of funded equipment or financial institutions.
- G. Grantee shall notify the District within five days if the grantee files a petition for relief under bankruptcy law.

Consistent with 2017 CMP Guidelines, District retains the original contract and provides a copy to the grantee.

XII. Project Post-Inspection

The District conducts post-inspections to verify that the project equipment matches the information described in the grant contract. District staff and/or contracted consultants conduct post-inspections after project implementation prior to payment approval. Two important aspects of the post-inspection are verifying that the baseline engine is rendered permanently unusable/irreparable and verifying that the new engine matches the specifications in the contract. As described above in Section IX, the pre- and post-inspections for off-road equipment can be completed during the same inspection day.

An inspection will only be scheduled for a time when the project applicant can provide a safe environment to conduct the inspection. For example, engines shall only run during the inspection to verify operability. The grantee must also ensure that engines have not been operated within several hours prior to the inspection to avoid excessive engine temperature.

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At the time of the inspection, the applicant must be able to direct Air District staff to the exact locations of equipment identification plates, hour meters and fuel gauges. All required paperwork must be available during the inspection.

Similar to pre-inspections and depending on the engine location, District staff may request other air districts to conduct the post-inspection or the District may be asked by other air districts to conduct post-inspections. The District verifies the following information during the post-inspection. This information is recorded on a post-inspection form and is stored in the electronic project file folder along with the post-inspection photographs on the District's O Drive.

- A. The baseline engine serial number matches what was recorded in the pre-inspection.
- B. The replacement engine matches the specifications listed in the contract.
- C. New equipment/engine information is documented with photos using the same photographic documentation procedures described in "baseline pre-inspection."
- D. The project engine complies with CMP eligibility criteria and grant contract requirements.
- E. Baseline engines and equipment are required to be destroyed at a District-verified salvage yard at which time a Certificate of Destruction is issued by authorized salvage yard staff, along with photographs of the destroyed engine and equipment. Flexibility to this requirement will be determined on a case-by-case basis. At a minimum, District staff shall verify that the existing equipment is rendered permanently unusable and irreparable. At a minimum, the destruction of an engine must include:

Off-Road (per ARB Guidelines, Chapter 5, (P) (1) (page 5-10):

- 1) A hole in the engine block with a diameter of at least three inches at the narrowest point. The hole must be irregularly shaped (i.e. no symmetrical squares or circles)
- 2) A section of the oil pan flange must be removed as part of the hole or have a line cut through it that connects the hole

All other (per ARB Guidelines, Chapter 3, 4.Verification of Destruction (A) (B) (page 3-35):

- 1) District staff will verify and document through photographic or video evidence that the destroyed engine serial number matches that on the project contract.
- 2) District staff must verify that engines without a visible and legible serial number are uniquely identified by the correct District stamp or other permanent marking prior to engine destruction.

In some cases, the grantee may use a vendor to provide professional services to accomplish contract obligations. District staff may verify destruction of the baseline engine/equipment through photographs submitted by the grantee or vendor. District staff may also verify the identity of the engine using photographs or, at the discretion of District staff, may require

shipment of the destroyed engine to a location within the District for inspection by District staff prior to reimbursement.

XIII. Payment of Projects (Expenditures)

Once a contract is executed and the post-inspection is completed, the grantee can submit grant invoices for payment. Contracts specify a required timeframe for grantees to request reimbursement. Should the grantee fail to implement the project according to the schedule, staff will contact the grantee, evaluate the circumstances and determine a course of action that may include a contract extension or termination. The District may extend the reimbursement period at its discretion. In most cases an extension will not go past the applicable due date for obligation of funds in the 2017 CMP Guidelines. The District may allow a longer extension if cumulative tracking shows the District is in compliance with obligation deadlines.

Planning and accounting staff process payments for projects by reviewing and tracking invoices and expenditures for each project. The following outlines the District's steps for invoicing and payment:

- A. Grantee must submit grant invoices along with the reimbursement form (included in the contract packet) to the CMP Planning Staff Contact, within the timeframe specified in the contract, unless extended.
- B. The CMP Planning Staff submits initial post-inspection packet containing the original contract, post-inspection and destruction documentation, and reimbursement packet to the Planning Manager.
- C. After approval by the Planning Manager, CMP Planning Staff passes Reimbursement packet containing the transmittal cover sheet, original contract, reimbursement form with directions of payment, and invoices to the accounting staff.
- D. Once accounting staff has approved grant invoice documentation, the invoice is logged as pending payment and is passed on to planning staff for final approval from Planning Manager and APCO.
- E. Planning Manager verifies project completion in accordance with the grant contract and confirms consistency between grant invoice requirements and the submitted invoices.
- F. Planning Manager forwards final reimbursement packet to the APCO (or designee) for approval.
- G. After APCO (or designee) approval, the invoice is processed for payment by accounting staff.
- H. Payments are made within 30 days of APCO (or designee) approval.
- I. Once the grant invoice is paid, documentation of payment is maintained by accounting and planning staff. The completed invoice packet is filed by check date in the accounts payable files and retained by accounting staff. Planning staff track invoices and expenditures by CMP funding year.

- J. Accounting staff produces a monthly grant expense report showing the budget, amount expended to date, and amount remaining of each individual grant. Planning staff reviews the report to confirm details in the planning tracking spreadsheet. Accounting staff and planning staff meet regularly to discuss issues such as discrepancies in expended amounts and invoice processing procedures.

XIV. Project Monitoring

Project monitoring includes annual use reporting and District project audits. Annual use reporting is an important on-going method for the District to monitor the progress of projects in achieving emission reductions. Project audits verify that CMP-funded equipment complies with the grant contract. The following sections describe the details of the annual use reporting and project audits.

A. Grantee Annual Reporting

Annual reporting is required by CMP Guidelines and is a critical element of project monitoring to ensure emission reductions are achieved. CMP funded projects funded beginning in Moyer Year 13 are required to submit annual reports for the term of the contract.

The District conducts annual reporting activities in the first quarter of each year. In January, the District mails out usage forms to all active grantees for whom a report is required. The reports are due back to the District no later than the first Friday in March. Grantees report total annual use, percent of time engine operated within California and percent of time engine operated within the District. Grantees must report usage in hours.

The grantee annual report is reviewed for completeness, accuracy, and compliance with the project's requirements. The District maintains hardcopy annual use report forms in separate binders and organized by reporting year.

District staff shall make reasonable efforts to obtain the necessary information from grantees who fail to return a timely and complete usage report.

If project requirements are not met and/or emission reductions are not achieved, the District is required to address the project's non-performance. District actions to address nonperforming projects include, but are not limited to:

- Extending the project contract for additional years (provided the extension complies with applicable CMP Program Advisories).
- Requiring Grantee to pay back project funds to the District proportional to the loss in emission reductions.
- Transferring ownership of the engine/equipment to another grantee committed to complying with the contract terms.
- Recalculate the project's cost-effectiveness based on decreased usage per 2017 CMP Guidelines, Chapter 3, *BB. Nonperforming Projects (page 3-38 through 3-40)*.
- Grant a waiver according to the following:
 - In instances where annual usage is significantly lower than anticipated due to unforeseen circumstances beyond the control of the engine owner, the

owner may request a waiver from the District. The request must include documentation acceptable to the District showing the need for a waiver and verification that low use of the grant-funded engine did not result from the grantee using higher-polluting equipment. Documentation and approved waivers shall be filed in the project folder.

B. Project Audits

In the second quarter of each year, the District audits projects as prescribed by the CMP Guidelines. The District will include at least one off-road equipment replacement project in the list of projects audited.

XV. Project File Set-Up and Maintenance

The District retains program, project and fiscal files including paper and/or electronic documentation. Administrative records for a given funding year must be retained, at a minimum, until the applicable funding year liquidation deadline. For example, CMP Year 19 (fiscal year 2016-17) administrative records must be retained at least until June 30, 2021.

Some files pertaining to administering the CMP are retained in Planning Division files, while others are retained in Administrative Division files. Planning Division and Administrative Division responsibilities for file creation and maintenance are described below.

A. Planning Division

Planning staff are responsible for programming, contracting and payment-approval for CMP projects. Planning staff tracks project implementation, annual project usage, and retains program files.

Project folders maintained in the Planning Division and electronically on the District's server are used to store application forms, formal written communications with the grantee, inspection forms, photographs, and documentation required by grant contracts including: certificates of warranty, insurance, and UCC-1 filings. Project folders also contain funding eligibility data including documentation of how baseline and project engine information (e.g. horsepower) were determined.

The following documentation must be maintained in the project files for a minimum of two years after the end of the contract term or a minimum of three years after final payment, whichever is later:

- File for each project selected for funding
- Executed project contracts and contract amendments
- Pre-inspection form
- Post-inspection form, including additional information required for retrofit devices
- Copies of invoices and documentation of payment
- Waivers for low use as needed

Applications that were not selected for funding must be retained for a minimum of three years after receipt.

In addition to hardcopy files, planning staff also maintains electronic files associated with the CMP. This includes the District database of project information, the ARB CARL database, spreadsheet for fiscal tracking and spreadsheet to analyze annual use data.

B. Administrative Division

Accounting staff processes and retains records and accounts of CMP fund balances, obligations and expenditures.

Fiscal files are identified by the general ledger numbering system within the District accounting software. This number uniquely identifies each grant within the system.

CMP fiscal files consist of a completed pay package, which includes grant invoice packet with supporting documentation and approvals. The accounting voucher also contains the check number and the date the check was mailed. This package is filed in the Accounts Payable files alphabetically by grantee.

XVI. Program Structure, Organization, and Coordination with ARB

The District's CMP is primarily administered through the Planning Division. The organization of District staff in the CMP is shown in Figure 1. An important aspect of the District's CMP is the District internal quality control (QC) checks used throughout the process. These QC checks include:

- internal review of the contract language
- invoice review by planning, management, and accounting staff
- fund obligation and expenditure confirmation between accounting and planning staff
- periodic meetings to evaluate the progress of the CMP

Planning staff retains correspondence with ARB in the project folders regarding their interpretations, clarification, guidance, or possible deviations from the CMP Guidelines.

ARB invites District staff to attend CMP Incentive Program Implementation (IPI) team meetings once a quarter or as needed. District staff also attends other CMP program meetings by teleconference or in person.

As part of their oversight responsibilities, ARB staff may perform desk reviews of the District CMP program, on-site monitoring and audits. An audit of the District's program may involve other state agencies, such as the Department of Finance and State Bureau of Audits. Audits may be fiscal, programmatic or both. Audit preparation is specific to whatever entity is performing the audit and what documents and analyses are requested prior to the audit.

Figure 1. District CMP Organizational Chart

